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FOR EB DAS AMB. DAVID GROSS FROM THE AMBASSADOR

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SUBJECT: SCENESETTER: VISIT OF EB DAS AMBASSADOR DAVID A. GROSS

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¶1. Greetings and welcome to the Sultanate of Oman. My team and I look forward to your arrival on May 12 in conjunction with the USTDA Information and Communication Technology regional forum, May 14-16. In addition to conference activities, we are seeking a meeting with the Telecommunications Regulation Authority and a visit to the burgeoning investment and IT and business incubation center known as Knowledge Oasis Muscat.

Economic Overview

¶2. Oman's economy is based primarily on petroleum and natural gas, which is expected to account for 81% of the government's revenue in calendar year 2006. Oman's proven recoverable oil reserves are estimated at 4.8 billion barrels. The main producer of oil is the government majority-owned Petroleum Development Oman (PDO, in partnership with Royal Dutch Shell), which controls 90 percent of reserves and the lion's share of total production. U.S.-owned Occidental Petroleum is the second largest producer in Oman, and is making sizable investments at present in enhanced oil recovery efforts in mature fields.

¶3. High oil prices in 2005 led to a record Omani budget surplus of $3.8 billion and a blistering GDP growth of 21.7 percent, despite the fact that oil production has been in steady decline since 2001. The 2006 budget, announced on January 1, projects massive government spending on industrial and tourism projects that could produce a deficit as large as 6 percent of GDP. The government also unveiled its Seventh Five-Year Plan, to cover 2006-2010, which projects a hike in the average investment rate over that period to 24 percent of GDP. Thanks to windfall oil prices and strong tourism growth, Oman's economy is currently running at a brisk pace.

¶4. Oman actively seeks private foreign investors, especially in the industrial, information technology, tourism, and higher education fields. The largest single industrial investment target is the port city of Sohar, near the UAE border. It has witnessed over $12 billion in government investment alone in the financing of several industrial projects in Sohar, including a petrochemical plant (with Dow Chemical), a steel rolling mill, a fertilizer plant, and an aluminum smelter (being built by Bechtel). Investors transferring technology and providing employment and training for Omanis are particularly welcome. The permitted level of foreign ownership in privatization projects is 70 percent, with up to 100 percent in certain cases. The government has proceeded with several major privatization projects, including power generation projects in Salalah, Barka, Rusayl, and the Sharqiyah region.

Telecommunications Regulatory Authority

¶5. The Telecommunications Regulatory Authority (TRA) was established in 2002 with an interim board composed of experienced IT officials. Its main mission is to develop telecommunications infrastructure and to attract foreign investment. Engineer Nashiya bint Sa'ud al-Khurusi (with whom you will be meeting), Member Responsible for Technical Affairs and Radio Spectrum Management, is the main mover and shaker at TRA. Al-Khurusi was educated in Egypt and was the first female to represent Oman in international IT conferences in 1972. She is a tough negotiator, as the U.S. side learned during our Free Trade Agreement negotiations in ¶2005. The TRA's other major interim board member is Colonel Muhsin al-Hafidh, Member Responsible for Legal Affairs and International Representation. Al-Hafidh is also the head of IT at Royal Oman Police. His inclusion on the board illustrates the strong interest Oman's security services have in telecommunications and IT.

¶6. About two months ago, the TRA issued tenders soliciting consultants to help prepare for the offering of a second fixed line and internet service provider. Other activities

of the Authority include its recent regulatory decision against Omantel, ordering them to provide a more competitive atmosphere with telecom newcomer Nawras. Specifically, Omantel was ordered to allow subscribers who switch to Nawras to retain their original phone numbers.

Omantel vs. Nawras: A Healthy Competition?

¶7. Omantel's initially successful initial public offering, which privatized 30 percent of the company and generated millions of dollars in July 2005, reflected the public's strong belief in the potential of the telecommunication industry. Omantel's subsidiary, OmanMobile, is the largest mobile telecommunication service provider. Omantel Board of Directors is headed by Nasser al-Shukaili, Secretary General of Taxes, and its CEO is Dr. Muhammed al-Wahaibi, a former officer in the Royal Court and guest speaker at the USTDA conference. Despite its annual increase in profits, Omantel faces some major challenges, including its ability to keep share prices from declining below its initial offering price, to prevent even further decline and discontent over privatization and government-promoted IPOs. Another challenge for Omantel will be preparing for its cross-border operations in Yemen after recently receiving an official invitation to negotiate with the Yemeni government on a mobile telephone operating license.

¶8. Telecom newcomer Nawras is a partnership between the Qatari Qtel, a Danish telecommunication consortium, and Omani investors. In its 18 months of operation, Nawras's aggressive advertising and market positioning has resulted in 100,000 subscribers, many of whom migrated from OmanMobile. Consumers have benefited from the competition with improved services and reduced prices. However, Nawras faces fierce competition from well-established OmanMobile. A contact recently informed PolOff that Nawras has filed a lawsuit against it competitor over roaming charges. Allegedly unfair recruitment policies and backlash over the Danish cartoon controversy have also affected its image and bottom line.

Security: VoIP

¶9. Security entities are still playing a major role in the telecommunications sector. The Royal Office and Internal Security Service are represented on the board of directors of Omantel and Nawras Telecom. In addition, the CEO of Omantel and a least one of the Vice Presidents are former security officials. Although Omantel organized a seminar on VoIP/SIP earlier this month, service from VOIP providers such as Net2Phone and Skype were cut some months ago due, unofficially, to security services' inability to monitor their communications. U.S. firm GO2Call recently spoke with Omantel and the TRA to discuss the use of Go2Call's software to monitor VoIP.

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Information Technology Council and the Technical Secretariat
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¶10. The Information Technology Council and the Technical Secretariat (ITTS) office of the Ministry of National Economy

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is in charge of implementing Oman's e-government project and drafting e-legislation that is due to be issued by the end of this year. It has been heavily involved in IT projects at Knowledge Oasis Muscat, which just opened offices for Hewlett Packard and Huwaui. There have been talks that the Secretariat may develop into a Ministry of Communications and

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Technology. The current head of the IT Council is Minister of National Economy, Ahmed bin Abd al-Nabi Macki, who holds national economy and finance energy portfolios. Although Oman has one of the lowest internet subscription rates in the region, it expects to have over 185,000 internet users by
¶2009.

Investment Projects: Tourism

¶11. With Oman aggressively marketing itself as an environmentally conscious tourist destination, international investors are taking advantage of significant improvements in local infrastructure to develop ambitious new tourist projects. U.S. construction and financial firms are joining a slew of regional and international consortiums that seek to capitalize on the region's annual 6.5 percent growth as a tourist destination. Investors hope to lure 3 million visitors annually with resorts like the $800 million Wave, the $160 million Bar al-Jissah Resort and Spa (venue for the

USTDA conference), and the massive $15 billion Blue City development just north of Muscat.

¶12. In 2004, Oman welcomed 1.5 million tourists, generating revenues of $284 million. Through aggressive marketing campaigns and improved infrastructure, Oman hopes to increase the industry's meager 1 percent contribution to GDP to 3 percent. The Omani government estimates that the tourism sector could eventually create over 114,000 jobs. To achieve these ambitious figures, the Ministry of Tourism has spent $30 million to market the country internationally through
¶2005.
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